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C O N F I D E N T I A L SECTION 01 OF 02 SAN SALVADOR 000955

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SUBJECT: ADIDAS: GOES WILL CONSIDER HERMOSA CLAIMS, LEGAL

REFORM FOR WORKERS, RIGHTS

Classified By: Charge d'Affaires, for reasons 1.4 (b) and (d)

11. (C) Summary: In a meeting with Adidas representatives, GOES officials said they would review compensation claims of Hermosa Manufacturing workers who lost their jobs in 2005 when the Salvadoran-owned garment factory closed, and to consider pursuing legal action against the owner. They also agreed to look into legal reforms regarding business closures suggested by Adidas to ensure protection of workers' rights. Such reforms would advance U.S. interests in promoting the rule of law and in ensuring that labor rights are protected and enforced per CAFTA-DR. End Summary.

12. (C) Labor Officer met with Hermosa workers' attorney Juan Jose Zaldana September 24 to discuss details of a September 21 meeting between Adidas Representative Gregg Nebel and government of El Salvador (GOES) officials at the Ministry for Foreign Affairs concerning efforts to compensate workers affected by the closure of Salvadoran-owned garment factory Hermosa Manufacturing in 2005 and to lobby for legal reforms to protect workers' rights. Attendees were Zaldana, Nebel, and Remedios Arguello of the Adidas Group; Minister of Labor Victoria de Aviles; Vice Minister of Foreign Affairs Jaime Miranda, Miranda's advisor Marcela Martinez; and Ministry of Foreign Affairs Director General for Economy and Commerce Ricardo Flores.

13. (C) Background: Hermosa ceased operations in May 2005, leaving more than 250 workers jobless and liabilities of USD 825,000 in outstanding wages, severance payments, and unpaid benefits. Adidas had previously contracted work to Hermosa but had terminated its contract before the closing of the factory. Adidas is not a party to the dispute, which is between the former workers and Montalvo. In 2008, Adidas commissioned Zaldana to represent the workers locally, engaging with the GOES and Salvadoran political parties, as well as businesses, academics, and advocacy groups. Zaldana said the September 21, 2009 meeting's objective was to establish a communication channel with the new GOES administration, and reported that the Government promised to review their labor cases, to look into providing medical services to Hermosa workers, and to seek job opportunities for the workers. End Background.

14. (C) In a communique to the Embassy about the meeting, Nebel said he told the GOES that the two concerns of their company are the rule of law in countries where they do business, and compensation for the former Hermosa workers.

15. (C) Nebel also stated that Aviles and Flores agreed to look into five areas of legal reform Adidas deems critical to the rule of law and the protection of workers' rights when an employer ceases operations:

-- Corporate obligations to employees;
-- Protection of workers' rights;
-- Protection of workers' social security and other benefits;
-- Priority of workers' compensation claims when an employer declares bankruptcy; and
-- A commitment that the Attorney General will employ all legal options to seize employers' assets and compensate employees.

¶16. (C) According to Nebel, Aviles agreed to contact the Attorney General to explore the seizure of Hermosa owner Joaquin Salvador Montalvo Machado's assets, and to review the sale of Hermosa's assets for 850,000 USD. Zaldana has contacted the Inter-American Commission on Human Rights (IACHR) on behalf of the Hermosa workers, and plans to meet with IACHR in late October in Washington, D.C. Zaldana said he has also set up computer, language, and industrial skills training programs for the workers.

¶17. (C) Nebel reported that Aviles told him that she would work with the incoming Attorney General and explore all options for the seizure of Hermosa owner Montalvo's assets in order to compensate the former Hermosa employees. All three GOES officials agreed to review documents Zaldana provided showing that Montalvo had received 850,000 USD for the sale of the Hermosa plant and property after it closed. Aviles promised to meet with the Salvadoran Social Security Institute (ISSS) Director, the Minister of Health, and the National Housing Fund (FSV) Director. Zaldana said that

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continued investment in El Salvador by Adidas and other brands will depend on how the government addresses these issues.

¶18. (C) Nebel also reported that Julio Milton Parada Dominguez (PDC party alternate from Santa Ana), a Legislative Assembly Deputy who sits on the Labor Committee, is working with Zaldana on developing legislation for a government-regulated escrow account to provide employee severance compensation.

¶19. (C) Comment: We believe the Funes administration, which received union support during the election campaign, is more aggressively enforcing workers' rights. Actions such as those sought by Adidas, if carried out, would allow the current administration to effect major change by simply applying the law, without having to legislate or engage in public debate. End Comment.
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